PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Communications Division
Carrier Oversight &
Programs Branch

RESOLUTION T-17312
June 7, 2012

R E S O L U T I O N

RESOLUTION T-17312 Response to Ducor Telephone Company's Application for Rehearing 09-03-002 for Resolution T-17157.

SUMMARY

This Resolution addresses Ducor Telephone Company's Application for Rehearing 09-03-002 for General Rate Case Resolution T-17157 in response to Decision 10-05-022 and increases Ducor's Test Year 2009 draw from the California High Cost Fund-A by $5,812 to $2,520,328.

BACKGROUND

Ducor Telephone Company (Ducor) is a small incumbent local exchange carrier (ILEC) serving approximately 1,200 access lines in Tulare, Kern and Tehama Counties, and areas contiguous thereto, furnishing local, toll and access telephone services. Ducor's principal place of business is located in Ducor, California. Ducor serves three exchanges, Ducor, Kennedy Meadows and Rancho Tehama.

Ducor filed its General Rate Case (GRC) on December 19, 2007, for Test Year (TY) 2009, through Advice Letter (AL) 318 in compliance with Decision (D.) 01-05-031. On January 29, 2009, the Commission adopted Resolution T-17157, which approved the Ducor GRC. The Resolution authorized Ducor to receive $2,514,450 in California High Cost Fund (CHCF)-A support beginning January 1, 2009.

On July 24, 2009, Ducor filed a Petition for Modification 09-07-022 for Resolution T-17157 and in D.11-05-032, adopted May 26, 2011, the Commission approved an increase in Ducor's draw for TY 2009, in the amount of $66, to $2,514,516.

On March 2, 2009, Ducor (U-1007-C) filed an Application for Rehearing (A.) 09-03-002 of Resolution T-17157 asserting that:

- A memorandum account for recordation of any revenues not provided by Resolution T-17157 needed to be established;
- Benefits to salary ratio was arbitrary and not supported by substantial evidence in the record;
- Five capital expenditure disallowances were improper:
- Elasticity factor to basic rate increases were not applied properly;
- Oral argument on the relief sought in this Application for Rehearing was needed.

On May 6, 2010, the Commission adopted D.10-05-022 and denied a rehearing on all issues raised in A.09-03-002 except that the Commission:

- concurred with Ducor to remove references to a "cap" on benefits;
- granted a limited rehearing on legal error for five capital expenditure items.

NOTICE/PROTESTS

Ducor's AL 318 Supplement C appeared in the Commission's Daily Calendar on June 9, 2010. No protests to the advice letter filing have been received.

DISCUSSION

Ordering Paragraph (O.P.) 4 of D.10-05-022, adopted on May 6, 2010, states, "A limited rehearing is granted to develop a record for the following five capital expenditure items. Ducor should provide responses to the following information in the manner described below".

In the following discussion, we present Ducor's responses to the five capital expenditure issues and CD's additional analysis. Ducor's responses to the Commission questions were provided in Ducor's AL 318 Supplement C filed on June 7, 2010.

(a.) Account 211200 Service Vehicles
Ducor should provide detailed information regarding the need for and cost estimates for all vehicles requested under this account. In addition, Ducor should provide information and a rationale supporting its request in this GRC for $30,715 in excess of its budget for vehicle purchases in 2007.

In AL 318 Supplement C, Ducor provided cost information and the rationale for the purchase of the service vehicles in question. CD believes that the information provided by Ducor satisfactorily answered the questions posed in the Decision and CD finds their responses reasonable. Accordingly, CD has added to rate base, Service Vehicles line 211200: $30,715 previously disallowed from 2007 actual, $25,000 deducted from 2008 additions and $25,000 deducted from 2009 additions.

(b.) Two Redundant Fiber Projects out of Rancho Tehama and Ducor
Ducor should provide information detailing its cost estimates and the need for these two fiber projects.

In Resolution T-17157, CD disallowed $35,000 from the $500,000 for the Ducor exchange redundant fiber project in 2009 additions and $35,000 from the $500,000 for the Rancho Tehama exchange redundant fiber project in 2009 additions. Thus, CD approved $465,000 for the Ducor project and $465,000 for the Rancho Tehama project in 2009 additions.

In AL 318 Supplement C, Ducor stated that, "Ducor did not request a quote for the Ducor redundant toll route, as it currently has an application pending for an ARRA grant through CVIN, LLC that would cover the cost of this route. This application appears to be moving forward into the due diligence process." ARRA refers to the American Recovery and Reinvestment Act of 2009 and CVIN refers to Central Valley Independent Network.

In AL 318 Supplement C, Ducor did provide a quote for the Rancho Tehama redundant fiber project in the amount of $960,595.20 for 2009 additions.

As part of the rate base evaluation process for the GRC, CD sent Ducor a data request on September 8, 2009, requesting that Ducor, "Please list all additions to plant for 2008 and 2009 and prioritize from highest priority to lowest priority using a numbered format". Ducor assigned a rating to both redundant fiber projects of "3", where a rating of one is highest and 3 is lowest. Given that Ducor acknowledged these projects are 1.) of a low priority, 2.) would only serve a limited number of residential access lines, and that they 3.) only estimate limited access line growth, CD reduced the funding for each project by seven percent, or $35,000. This modest reduction was made in response to the previously discussed factors and to encourage Ducor to either find cost savings or utilize shareholder investment. Especially considering that the majority of capacity provided by the new DLCs is not necessary for the provision of regulated services.

Accordingly, the Ducor exchange redundant fiber project was reduced by seven percent or $35,000, from $500,000 to $465,000 and the Rancho Tehama exchange redundant fiber project was reduced by seven percent or $35,000, from $500,000 to $465,000.

In addition, CD is concerned that if Ducor is successful in receiving ARRA funding for the Ducor exchange redundant fiber project, Ducor will have received $465,000 from ratepayers in addition to funding from the federal government via ARRA. Accordingly, if Ducor is awarded ARRA funding, Ducor should be required to notify the Commission by advice letter. CD may then modify the Ducor GRC Resolution T-17157 to exclude $465,000 in rate base for the Ducor exchange redundant fiber project from 2009 additions to prevent double recovery.

CD believes the approved funding for redundant fiber projects for Ducor exchange, in the amount of $465,000, and Rancho Tehama exchange, in the amount of $465,000, should remain unchanged.

(c.) Two digital loop carrier projects in the Ducor Exchange
Ducor should provide information to substantiate its cost estimates and the need for these two projects.

Ducor requested funding for two Digital Loop Carriers (DLCs) for the Ducor exchange in 2009 additions at $183,000 each or $366,000 total. One DLC was to be placed on Road 208 and one on Road 240. CD approved one and disallowed one as both DLCs are in very remote locations. CD had questioned the need for this level of investment in such remote areas predominantly comprised of farms.

Although Ducor's AL 318 Supplement C erroneously discusses two DLC projects in Ducor exchange in 2008 additions in which the Commission approved both DLCs in the amount of $360,000, Ducor did not address the 2009 additions.

Since, Ducor did not respond to the question as posed by the Decision, CD has no basis to alter its position and will continue to disallow one DLC in Ducor exchange, in the amount of $183,000, for 2009 additions.

(d.) Fiber optic project to a weather station in the Ducor Exchange
Ducor should provide information substantiating the need for and cost estimates for this project. In addition, Ducor should provide information regarding the number of current customers being served by this cable facility and the number of future customers Ducor anticipates will need to use it. Ducor should also provide information regarding what alternatives are available to Ducor that could provide a similar service to its customers besides the proposed project. Finally, Ducor should provide a maintenance history for this cable facility.

Ducor's AL 318 Supplement C states, "Ducor has not yet begun construction on this project and does not have a written quote on the cost of the route from its engineering

firm. Ducor's Outside Plant Manager drove the route with a representative of their outside plant vendor prior to the submission of the GRC and received a verbal quote of $145,000". In addition, Ducor did not provide a maintenance history other than a count of "3 or 4 trouble calls per year on this route".

Ducor also stated that, "There are six customers currently served on this route, and Ducor estimates that the future demand on this route could be as many as 100 customers as there is planned development in the area".

Ducor did not provide a written quote for the construction of this project nor did they provide a maintenance history as required by O.P. 4 (d) of D.10-05-022 and, as of the filing of AL 318 Supplement C, the project was not constructed.

Given this response, CD does not believe that Ducor has sufficiently substantiated the need for and cost estimates for this project and affirm our previous disallowance of this project in the amount of $145,000.

(e.) Furniture for the Kennedy Meadows Exchange

Ducor should provide all information substantiating its $6,000 request for this furniture, as well as other data and explanations that indicate what alternatives Ducor considered in making its request and why they were rejected.

Ducor's AL 318 Supplement C states, "Ducor no longer objects to the adjustment made by CD Staff related to furniture for the Kennedy Meadows building, therefore a detailed response is not provided". CD accepts this response and no further adjustment is necessary.

The following table summarizes proposed rate base adjustments made herein.

Summary of Five Capital Expenditure Items			
Description	Ducor Request	R.T-17157 Approved	R.T-17312 Approved
(a) Service Vehicles			
(1) 2007 in excess of budget	$30,715	$0	$30,715
(2) 2008 additions	$185,500	$160,500	$185,500
(3) 2009 additions	$37,000	$12,000	$37,000
(b) Redundant Fiber 2009 additions:			
(1) Ducor exchange	$500,000	$465,000	$465,000
(2) Rancho Tehama exchange	$500,000	$465,000	$465,000
(c) Digital Loop Carrier (DLC) 2009 additions: Ducor exchange	$366,000	$183,000	$183,000
(d) Fiber optic project to weather station - 2008 additions: Ducor exchange	$145,000	$0	$0
(e) Furniture 2008 additions: Kennedy Meadows exchange	$6,000	$3,000	$3,000

We believe the above adjustments are reasonable and approved the amounts reflected in the column marked R.T-17312 Approved and as shown in Attachment I.

Evidentiary Hearings

O.P. 5 of D.09-03-022 reads, "Ducor may also request evidentiary hearings by making such a request in the Supplemental AL. In that event, Ducor should explain why evidentiary hearings are necessary, and what material factual issues are in dispute that would warrant evidentiary hearings before an Administrative Law Judge." Ducor did not request evidentiary hearings in AL 318 Supplement C filed June 7, 2010.

O.P.5, of D.09-03-022 states, "Should it be determined that evidentiary hearings are necessary, CD Staff shall make this recommendation in the resolution." In light of the fact that Ducor has not requested evidentiary hearings and CD does not believe that the issues in the five capital expenditure items require hearings, CD does not recommend evidentiary hearings in this Resolution. We concur no evidentiary hearings are needed.

CHCF-A Support

This Resolution adds back to rate base Service Vehicles $30,715 for December 2007 actual, $25,000 for 2008 additions and $25,000 for 2009 additions. These changes result in an increase of $5,812, to $2,520,328 in CHCF-A support for test year 2009, as shown below and summarized in Attachment I:

	Additional CHCF-A Funding Amount	New CHCF-A Amount for Test Year 2009
Res. T-17157	n/a	$2,514,450
Decision 11-05-032	$66	$2,514,516
Res. T-17312	$5,812	$2,520,328

COMMENTS

In compliance with Section 311 (g), notice letters were e-mailed on May 8, 2012, to the service list, informing these parties that this draft resolution is available at the Commission's website http://www.cpuc.ca.gov/ and is available for public comments. In addition, CD informed these parties of the availability of the conformed resolution at the same website.

FINDINGS

1. Ducor Telephone Company (Ducor) filed its General Rate Case (GRC) by Advice Letter (AL) No. 318 on December 19, 2007, for Test Year 2009.
2. On January 29, 2009, the Commission adopted Resolution T-17157 approving the Ducor GRC for Test Year 2009 funding in the amount of $2,514,450.
3. On July 24, 2009, Ducor filed a Petition for Modification of Resolution T-17157, and requested modification of five potential errors.
4. Commission Decision (D.) 11-05-032, adopted May 26, 2011, approved an adjustment to Resolution T-17157, in the amount of $66, which increased Ducor's Test Year 2009 funding to $2,514,516.
5. On March 2, 2009, Ducor filed an Application for Rehearing (A.) 09-03-002, of Resolution T-17157, alleging several legal errors.
6. On May 6, 2010, the Commission adopted D.10-05-022 and addressed all of the issues raised in A.09-03-002 except a limited rehearing was granted to develop a

record for five capital expenditure items. Ducor was directed to provide responses to questions posed in Ordering Paragraph (O.P.) 4.

7. On June 7, 2010, Ducor filed AL 318, Supplement C, in response to O.P. 4 of D.10-05-022.

8. After reviewing Ducor's response to O.P.4, of D.10-05-022, item (a), Communications Division (CD) accepts the information provided by Ducor and adds into rate base $30,715 for 2007 actual, $25,000 for 2008 additions and $25,000 for 2009 additions.

9. In response to O.P. 4, of D.10-05-022, item (b), since Ducor rated the redundant fiber projects in Ducor exchange and Rancho Tehama exchange as lowest priority third rank, the $35,000 disallowance for each project remains unchanged. Thus, the amount approved in Resolution T-17157 in the amount of $465,000 for each project or $930,000 total for 2009 additions, remains unchanged.

10. CD is concerned that Ducor may receive double funding for the redundant fiber project in Findings number nine for Ducor exchange since funds are being sought from American Recovery and Reinvestment Act, of 2009, (ARRA) and from the Commission in Resolution T-17157. In order to avoid double funding, Ducor should be required to file a supplementary advice letter if ARRA funding is successful as CD might revise Resolution T-17157 and remove $465,000 from 2009 additions for Ducor exchange redundant fiber project.

11. In AL 318 Supplement C in reference to O.P. 4, of D.10-05-022, item (c) Ducor discussed two digital loop carriers (DLCs) from 2008 additions which were approved in full in the amount of $360,000 in Resolution T-17157. Ducor did not discuss two DLCs from 2009 additions in Ducor exchange in which one was awarded in the amount of $183,000 and one was disallowed. Since Ducor did not respond to the question as posed in the Decision, CD continues to disallow one DLC in Ducor exchange, in the amount of $183,000, for 2009 additions.

12. In O.P. 4, of D.10-05-022, item (d) copper route to a weather station run by a business, Ducor was asked to provide a cost estimate for the project. Ducor only provided a verbal estimate, did not provide a maintenance history other than a count of outages and as of the date the AL was filed, June 7, 2010, the project was not constructed. Accordingly, Ducor has not sufficiently substantiated the need for and cost estimates for this project, CD has not adjusted its disallowance of this project in the amount of $145,000 from 2008 additions.

13. In O.P. 4 of D.10-05-022, item (e) Furniture for the Kennedy Meadows Exchange, Ducor is no longer contesting the disallowance of $3,000 from $6,000 from 2008 additions. Accordingly, CD has made no further adjustment.

14. In this Resolution, CD has increased rate base for Service Vehicles by $30,715 in 2007, $25,000 in 2008 and $25,000 in 2009.

15. This Resolution approves an adjustment to Resolution T-17157, in the amount of $5,812, which increases Ducor's Test Year 2009 funding to $2,520,328.
16. In O.P. 5 of D.10-05-022, Ducor was given the option to request evidentiary hearings. In AL 318 Supplement C, Ducor did not make such a request.
17. CD believes the issues in this Resolution do not require evidentiary hearings as outlined in Rules of Practice and Procedure Article 16.3 (a) as asked in O.P. 5 of D.10-05-022.

THERFORE, IT IS ORDERED that:

1. The Application for Rehearing of Resolution T-17157, filed by Ducor Telephone Company on March 2, 2009, is partially granted and partially denied.
2. Resolution T-17157 as modified by Decision 11-05-032 and Resolution T-17312 as set forth in Attachment I, is adopted and replaces Resolution T-17157 in its entirety.
3. Ducor Telephone Company's test year 2009 California High Cost Fund-A support is increased by $5,812 to $2,520,328, as shown in Appendix D of Resolution T-17157.
4. The Commission shall remit the additional California High Cost Fund-A amount of $5,812, for test year 2009, to Ducor Telephone Company.
5. Ducor shall file a supplemental Advice Letter if funding is secured from American Recovery and Reinvestment Act, of 2009, for the Ducor exchange redundant fiber project for 2009 additions.
6. Application 09-03-002 is closed.

This resolution is effective today.

I hereby certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on June 7, 2012. The following Commissioners approved it:

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Paul Clanon
Executive Director

ATTACHMENT I